

A fund set up as an adjunct to a school of business administration that is exempt from Federal income tax for the sole purpose of providing business students with instruction and experience in managing securities may be exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

Advice has been requested whether an organization formed and operated as described below is exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

A fund of less than \$10,000.00 was contributed by a university school of business administration, that is exempt from Federal income tax, to a corporation organized at the instance of, and controlled by, its faculty for the purpose of giving students who are taking or have taken investment courses experience in the management of a portfolio of securities. Members of the faculty serve as directors of the fund. Investment responsibilities rest with the students, who are divided into groups for the management of ratable portions of the fund's assets. Each group continually analyzes and evaluates its portion of the portfolio and makes changes in the light of theories and principles learned in formal courses of instruction.

No salaries are paid to the directors or students. Funds in excess of the needs of the program are paid over to the university school of business administration. Upon dissolution of the fund the assets will be given to the university.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations defines the term 'charitable' as including the advancement of education.

Section 1.501(c)(3)-1(d)(3) of the regulations defines the term 'educational' as including the instruction or training of the individual for the purpose of improving or developing his capabilities.

The fund is used by the students as an adjunct to their course of instruction to obtain knowledge and experience in security portfolio management. Thus, the fund contributes to their education. Accordingly, the organization is exempt from Federal income tax under section 501(c)(3) of the Code.

An organization which considers itself within the scope of this Revenue Ruling must, in order to establish exemption under

section 501(c)(3) of the Code, file an application on Form 1023, Exemption Application, with the District Director of Internal Revenue for the internal revenue district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the regulations.